

Financial Statement Review (Required Civil Code Sec. 4525)
Carmel Mountain Ranch Residential Community Association

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Order Date: 08-18-2025
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CARMEL MOUNTAIN RANCH RESIDENTIAL COMMUNITY ASSOCIATION

April 11, 2025

Re: Carmel Mountain Ranch - Residential Community Association
Annual Financial Report for Fiscal Year Ended December 31, 2024

Dear Homeowner:

Enclosed, please find the Carmel Mountain Ranch Residential Community Association reviewed financial statement for the year ending December 31, 2024. This report is being distributed to you in accordance with California Civil Code Civ. Code § 5305, which states in part, “a review of the financial statement of the association must be prepared per GAAP by a CPA for any fiscal year in which the gross income to the association exceeds \$75,000 and distributed to members”.

Please review the enclosed document as it outlines the financial condition of your Association. This report was prepared by Newman & Associates, CPAs. Newman & Associates was selected by the Board and is an independent auditor. It is recommended that you retain this document with your permanent records. In the event you choose to refinance your loan or sell your home, you may need to provide this information to your lender or the prospective buyer.

Should you have any questions regarding the contents of this information, please feel free to contact me at (858) 576-5533 or via email at vromero@waltersmanagement.com.

Respectfully,

For the Carmel Mountain Ranch Residential
Community Association

Valerie Romero
Community Association Manager
Walters Management

Enclosure

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Carmel Mountain Ranch Residential Community Association
Financial Statements
For the Year Ended December 31, 2024



NEWMAN
Certified Public Accountant, PC

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Carmel Mountain Ranch Residential Community Association
Financial Statements
For the Year Ended December 31, 2024

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NEWMAN
Certified Public Accountant, PC

Independent Accountant's Review Report

To the Board of Directors of Carmel Mountain Ranch Residential Community Association

We have reviewed the accompanying financial statements of Carmel Mountain Ranch Residential Community Association, which comprise the balance sheet as of December 31, 2024, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Carmel Mountain Ranch Residential Community Association, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the responsibility of management. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

Newman Certified Public Accountant, PC.

Newman Certified Public Accountant, PC

Carlsbad, California

March 14, 2025

Carmel Mountain Ranch Residential Community Association

**Balance Sheet
December 31, 2024**

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 281,884	\$ 277,009	\$ 558,893
Investments	557,000	2,791,000	3,348,000
Assessments receivable	147,536	-	147,536
Allowance for credit losses	(132,131)	-	(132,131)
Interest receivable	3,762	18,437	22,199
Prepaid insurance	56,848	-	56,848
Due from (to) fund	(6,861)	6,861	-
Total assets	\$ 908,038	\$ 3,093,307	\$ 4,001,345
Liabilities			
Accounts payable	\$ 73,493	\$ -	\$ 73,493
Income tax payable	-	3,631	3,631
Prepaid assessments	74,546	-	74,546
Contract liabilities (assessments received in advance - replacement fund)	-	3,089,676	3,089,676
Total liabilities	148,039	3,093,307	3,241,346
Fund balances	759,999	-	759,999
Total liabilities and fund balances	\$ 908,038	\$ 3,093,307	\$ 4,001,345

Carmel Mountain Ranch Residential Community Association
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2024

	Operating Fund	Replacement Fund	Total
Revenues			
Owners' assessments	\$ 1,951,039	\$ 186,295	\$ 2,137,334
Apartment assessments	277,200	-	277,200
Collection income	16,761	-	16,761
Fines and violations	13,750	-	13,750
Interest	32,061	133,729	165,790
Other member income	1,102	-	1,102
Total revenues	<u>2,291,913</u>	<u>320,024</u>	<u>2,611,937</u>
Expenses			
Utilities			
Electricity	1,322	-	1,322
Water	498,495	-	498,495
	<u>499,817</u>	<u>-</u>	<u>499,817</u>
Common Area			
Landscape and irrigation	1,118,635	297,644	1,416,279
Tree trimming	221,991	-	221,991
Common area repairs and maintenance	38,782	9,060	47,842
Pest control	10,976	-	10,976
	<u>1,390,384</u>	<u>306,704</u>	<u>1,697,088</u>
Administrative			
Insurance	56,822	-	56,822
Management	207,900	-	207,900
Legal and professional	25,340	-	25,340
Administrative expense	129,713	189	129,902
Collection charges	16,901	-	16,901
Bad debt expense	19,856	-	19,856
Income tax expense	-	13,131	13,131
Licenses, permits and fees	293	-	293
	<u>456,825</u>	<u>13,320</u>	<u>470,145</u>
Total expenses	<u>2,347,026</u>	<u>320,024</u>	<u>2,667,050</u>
Excess (deficit) of revenues over (under) expenses	(55,113)	-	(55,113)
Beginning fund balances	889,204	-	889,204
Prior period adjustment	(74,092)	-	(74,092)
Ending fund balances	<u>\$ 759,999</u>	<u>\$ -</u>	<u>\$ 759,999</u>

Carmel Mountain Ranch Residential Community Association
Statement of Cash Flows
For the Year Ended December 31, 2024

	Operating Fund	Replacement Fund	Total
Excess (deficit) of revenues over (under) expenses	\$ (55,113)	\$ -	\$ (55,113)
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Decrease (Increase) in operating assets:			
Assessments receivable	(13,967)	-	(13,967)
Allowance for credit losses	15,409	-	15,409
Interest receivable	(633)	6,167	5,534
Prepaid insurance	(11,424)	-	(11,424)
Increase (Decrease) in operating liabilities:			
Accounts payable	20,215	-	20,215
Income tax payable	(6,717)	3,631	(3,086)
Prepaid assessments	(4,507)	-	(4,507)
Contract liabilities (assessments received in advance - replacement fund)	-	375,286	375,286
Prior period adjustment	(74,092)	-	(74,092)
Total adjustments	(75,716)	385,084	309,368
Net cash provided (used) by operating activities	(130,829)	385,084	254,255
Cash provided (used) by investing activities:			
Investments	(82,000)	(441,000)	(523,000)
Net cash flows from investing activities	(82,000)	(441,000)	(523,000)
Cash provided (used) by financing activities:			
Interfund borrowings	6,861	(6,861)	-
Net cash flows from financing activities	6,861	(6,861)	-
Net increase (decrease) in cash and cash equivalents	(205,968)	(62,777)	(268,745)
Beginning cash and cash equivalents	487,852	339,786	827,638
Ending cash and cash equivalents	\$ 281,884	\$ 277,009	\$ 558,893
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			\$ 16,217
Interest paid			\$ -

Carmel Mountain Ranch Residential Community Association
Notes to Financial Statements
For the Year Ended December 31, 2024

1. Organization

Carmel Mountain Ranch Residential Community Association (the "Association") was incorporated on May 22, 1985, as a nonprofit mutual benefit corporation under the laws of California for the purposes of maintaining and preserving common property. The Association consists of 3,807 residential homes and is located in San Diego, California.

2. Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 14, 2025, the date that the financial statements were available to be issued.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Board of Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - The fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - The fund is used to accumulate financial resources designated for future major repairs and replacements.

Members Assessments and Allowance for Credit Losses

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on properties of owners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include closely monitoring of outstanding assessment balances by management, member payment history of outstanding assessment balances, and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$133,569 and \$147,536, respectively. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

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Carmel Mountain Ranch Residential Community Association
Notes to Financial Statements
For the Year Ended December 31, 2024

The Association recorded an allowance for credit losses of \$132,131 to reflect an estimate of accounts that may not be collectible.

Property and Equipment

The Association has not capitalized real and personal common area property contributed by the developer. Replacements and improvements to real property are also not capitalized; rather, they are charged to the respective fund in the period the cost is incurred.

Contract Liabilities (Assessments received in advance – replacement fund)

The Association recognizes replacement fund (reserves) revenue from members as related performance obligations are satisfied. A contract liability (assessments received in advanced – replacement fund) is recorded when the Association has the right to receive payment in advance of satisfaction of performance obligations related to replacement reserve assessments. The balance of Contract Liabilities (assessments received in advanced – replacement fund) as of the beginning and end of the year are \$2,714,390 and \$3,089,676, respectively.

Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses.

Interest Income

Interest income is recognized when earned and allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Cash and Cash Equivalents

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

Investments

Investments consist of certificates of deposit and other securities and investment accounts with original maturities of more than 90 days.

4. Income Taxes

The Association was granted federal tax exemption under Internal Revenue Code (IRC) Section 501(c)(4). An entity with a federal tax exemption is required to file Form 990 and report income separately in the following three categories, as applicable: exempt function income, unrelated business income, and revenue excluded from tax under IRC Sections 512-514. Taxable income includes unrelated business income which is defined based on the federal tax exemption that was obtained. The Association is required to file Form 990-T if it has unrelated business income. The Form 990-T tax rate is 21%.

The Association is also required to file California's Form 100 income tax return subject to California Revenue & Taxation Code sections 24405 and 24437 for its state income tax return. The Form 100 tax rate is 8.84%.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of the year end, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The expected

Carmel Mountain Ranch Residential Community Association
Notes to Financial Statements
For the Year Ended December 31, 2024

to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions. The Internal Revenue Service and the California Franchise Tax Board can examine the Association's income tax returns generally up to three years and four years, respectively. There are currently no audits in progress for any tax period.

5. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for operating fund expenses.

The Board of Directors conducted a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

6. FASB ASC 606 Revenue Recognition

The Financial Accounting Standards Board (FASB) issued ASC 606 guidance, Revenue from Contracts with Customers, effective January 1, 2019, which superseded the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRA), Revenue Recognition. The Association has presented the attached financial statements in accordance with FASB ASC 606. Assessments attributed to the Operating Fund are recognized in the period earned. Assessments allocated to the Replacement Fund are recognized as revenue only when there are replacement fund expenditures, and to the extent the replacement fund expenditures exceed replacement fund interest income.

The cumulative balance of Replacement Fund assessments that have not been recognized as income are accumulated as deferred replacement fund assessments and presented as Contract Liabilities (Assessments received in advance - Replacement fund) on the Balance Sheet. Deferred replacement fund assessments are increased by unrecognized replacement fund assessments and decreased as replacement fund assessments are recognized as revenue in the Statement of Revenue and Expenses and Changes in Fund Balances.

Contract liabilities (assessments received - in advance - replacement fund) as of January 01, 2024	\$ 2,714,390
Assessments budgeted for Replacement Fund	561,581
Recognized Replacement Fund assessments	(186,295)
Contract liabilities (assessments received - in advance - replacement fund) as of December 31, 2024	<u>\$ 3,089,676</u>

7. Prior Period Adjustment

A prior period adjustment has been recorded to the Operating Fund primarily to reclassify prior period water expenses totaling \$74,092. The correction has no effect on the results of the current year's operations.

Carmel Mountain Ranch Residential Community Association
Supplementary Information on Future Major Repairs and Replacements
December 31, 2024
(Unaudited)

The Association's Board of Directors, in conjunction with a reserve study expert, conducted a reserve study dated August 30, 2024, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair and replacement.

The following information is based on the study and presents significant information about the components of common property.

Study Component	Estimated remaining useful lives (years)	Estimated future replacement costs
Fences and walls	0-23	\$ 4,806,650
Irrigation	0-27	626,750
Monument	1	155,000
Landscaping	0-4	396,600
Painting	0-6	2,419,000
Mailboxes	15-22	480,500
		<u>\$ 8,884,500</u>
Interest rate		<u>3.00%</u>
Inflation rate		<u>3.00%</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2024